



Miami-Dade County Board of County Commissioners

Office of the Commission Auditor

Supplemental Legislative Analysis

**Community Outreach, Safety and Healthcare
Administration Committee**

Wednesday, March 9, 2005

2:00 PM

Commission Chamber

Charles Anderson, CPA
Commission Auditor

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Miami, Florida 33128
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**Miami-Dade County Board of County Commissioners
Office of the Commission Auditor**

Supplemental Legislative Analysis

**Community Outreach, Safety & Healthcare Administration Committee
Meeting Agenda
March 9, 2005**

Written analyses for the below listed items are attached for your consideration in this Supplemental Legislative Analysis.

Item Numbers

1(D)(1)(A) & (B)	7(A)
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Written analyses for the below items were included in the original Legislative Analysis package distributed on March 7, 2005.

Item Numbers

2(A) / 2(B) / 2(A&B) Supplement	3(B) / 3(F)
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If you require further analysis of these or other agenda items, please contact Gary Collins, Acting Chief Legislative Analyst, at (305) 375-1826.

Acknowledgements--Analyses prepared by:

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Jason Smith, Legislative Analyst
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LEGISLATIVE ANALYSIS

1(D)(1)(A) STRATEGY FOR EMPLOYEE HEALTH BENEFITS

General Services Administration Department

*1(D)(1)(B) RECOMMENDATION FOR APPROVAL TO ADVERTISE RFP NO. 471 FOR
A SELF-FUNDED HEALTH MAINTENANCE ORGANIZATION (HMO) PLAN*

Procurement Management Department

I. SUMMARY

These "Workshop Items" are for discussion as requested by Internal Management & Fiscal Responsibility Committee (IMFRC) Chairwoman Carey-Shuler, Ed.D., when IMFRC deferred the Items on January 13, 2005.

Item 1(D)(1)(A). The County's health benefits' consultant has indicated that the County, the Public Health Trust (PHT), and employees combined could save \$11-to-\$19 million per year in health care costs, with no change in benefits, by the County and PHT adopting a self-insured HMO plan. The cost reduction is projected to result from the County & PHT's assumption of the financial risk that is presently covered by the HMO insurers.

Item 1(D)(1)(B). Approval to advertise RFP No. 471 *Self-funded Health Maintenance Organization (HMO) Plan*.

a. Intent is to advertise for an HMO to consolidate the County's four fully-insured plans¹ into one self-insured HMO and to administer the self-insured plan on behalf of the County and PHT with two plan designs:

- 1) High option (similar to current HMO plan design), and
- 2) Low option (lower cost).

b. The HMO would administer the plan, similar as is currently; however, besides an administrative fee and stop loss insurance coverage, the County would only pay for actual claims.

c. This solicitation would allow the County to assess the savings possible under a self-insured arrangement. The County will still have the option to remain with its current fully-insured plans.

d. A recommendation for award is desired by July 2005 so that the new plan could be effective January 1, 2006.

Governments' experiences with self-insured health plans have varied. Questions remain, both about plan design and about pros and cons of self-insured programs. A recently published study of Brevard County's experience was positive but points out requirements for budgeting adequate funds allocated for claims and for required reserves.

- See Attachment #1 for additional information about Brevard County, FL, including lessons learned, and see Section V of this analysis for comments from Nassau County, NY.

¹ AvMed, Humana, Jackson Memorial Hospital and Vista

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II. PRESENT SITUATION

- Miami-Dade County's current HMO programs are fully-insured, the insurance carrier assumes all financial risk but keeps all premiums in excess of actual claims paid.
- Over 70% of County employees are currently enrolled in an HMO plan.
- The County currently self-insures its Point of Service program (since 1995) and has self-insured other health programs prior to that.

III. POLICY IMPLICATIONS

Self-insuring means that the County assumes most financial risk and not the insurer. Actual claims costs are paid by the County, as they are actually incurred, and in "good years", the County would retain all unspent premiums.

In 2004, the County's benefits consultant, Deloitte & Touche evaluated the County's insurance programs at that time and concluded that if that HMO program had been self-insured for 2004, dependent premiums would have been approx. 13% lower.

The proposed RFP would not obligate the County to pursue a self-insured arrangement. The County has the right to reject all proposals.

Evaluation of proposals will emphasize technical criteria, rather than price. Scoring is based on point totals as follows:

<u>Criteria</u>	<u>Points</u>
Proposer's Experience and Qualifications	150
Scope and Quality of Services Offered	300
Provider Reimbursement and Projected Claims Cost	300
Plan Design and Prescription Drug Benefits	150
Price (maximum)	100

IV. ECONOMIC IMPACT

Under the existing fully-insured arrangement, projected premium increases range in the double digits *per year* due to factors that are largely not under the County's control (inflation, large claims, medical malpractice, etc.).

Under a self-insured plan, savings to the County may make possible both more favorable premiums and better coverage as compared to fully-insured plans.

V. COMMENTS

Risk

As a self-insurer, the County will assume more financial risk, and the County is required to set aside the amount of funds needed for payment of claims and reserves. (See

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Attachment #1 for information on fiscal requirements.) The County's increased risk exposure is mitigated by use of historical trends and actuarial data and can be further limited by obtaining "stop-loss insurance" in which insurance carrier would assume all claim costs in excess of a certain percentage of expected claim costs, e.g. 120%).

Concerns

- Will the HMO administrator be as careful with the County's money as with the firm's money, such as in protecting the County from frivolous and fraudulent claims?
- The County Manager indicates that virtually all HMO's operate similarly, but this ignores important questions about healthcare consumer satisfaction and medical professionals who refuse to work with one or more of the various HMOs, including those presently providing HMO insurance plans to the County.
- What are others' experiences with and the pros & cons of self-insurance?
 - Brevard County, Florida's experience, including fiscal pros and cons, is described in detail in Attachment #1. The attachment is a copy of an article from the professional journal "Periscope," the journal of the American Society for Public Administration's (ASPA) Section on Personnel Administration and Labor Relations. (See Attachment #1.)
 - A January 2003 study by the Nassau County, New York Comptroller provides the following and point to a bad experiences with self-insurance in Nassau County. (Source: "Providing Affordable Healthcare for County Employees and Retirees in the Midst of Fiscal Crisis: Some Suggested Solutions," available <http://www.co.nassau.ny.us/comptroller/HealthInsSolutions.pdf>.)

Suffolk and Westchester are both self-insured. Nassau could also reconsider self-insuring all or part of its employee/retiree health benefits. In view, however, of the county's previous self-insurance experience with BPA (\$70 million in losses), the negative recommendation of the outside experts hired by the county prior to contracting with BPA, and the current controversy surrounding Suffolk's self-insurance practices, this option may have serious drawbacks. Any reconsideration of self-insurance, therefore, would require a particularly careful appraisal. Moreover, at least historically, the most cost-effective way for Nassau to offer the level of benefits associated with the Empire Plan is through NYSHIP (footnote 7, p. 9).

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Employee Wellness

- The proposed plan in the RFP does not include progressive, wellness-oriented, design elements to potentially reduce the County's long-term health care costs, improve employees' quality of life and thereby also foster improved work environments, attendance and performance.
- The formation of the proposed new HMO plan creates an ideal opportunity to (but does not) build in incentives for employee wellness, such as premium incentives for employees' active participation in health risk appraisals, fitness centers, weight loss, smoking cessation, and other healthy lifestyle changes

Attachment:

#1—L. Johnson & M. A. Feldheim, (2001, Summer/Fall). *Self-Insurance for Employee Health Care Coverage: Life in the Trenches*. Periscope, [journal of the American Society for Public Administration's (ASPA) Section on Personnel Administration and Labor Relations.] Available: [http://www.spalr.org/New/back% 20issues/Issue%2022-2/Issue%20-%2022-2%20\(self-insurance\).htm](http://www.spalr.org/New/back%20issues/Issue%2022-2/Issue%20-%2022-2%20(self-insurance).htm)

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Self-Insurance for Employee Health Care Coverage: Life in the Trenches

*Linda Johnson, Brevard County Employee Benefits Manager
Mary Ann Feldheim, Assistant Professor University of Central Florida*

Introduction

Health care coverage has again emerged as a major challenge for public personnel managers as insurance costs increase and provider choices decrease. One of the most important benefits a public employer can offer employees is affordable health care coverage with a wide choice of providers. As this benefit becomes more difficult to offer, innovative responses are needed. Self-insurance is one way to meet this employee benefit need. In 1999 Brevard County, Florida faced the challenge of offering affordable health care coverage with provider choices to County employees when there were no reasonable bids in response to a Request for Proposals. In this article, we discuss the situation that faced the County in 1999 and the decision to use self-insurance to provide employees with several choices of affordable health care insurance. We share the advantages and disadvantages of self-insurance and offer advice to other public organizations facing a similar situation in our volatile health care market.

Brevard County's Story

In 1999, Brevard County Florida faced the challenge of providing high quality, affordable health insurance to County employees with freedom of choice in selecting physicians and hospitals. To increase the bargaining power of the County when negotiating for health care coverage, the decision was made to join forces with the School Board creating a group of almost 20,000 employees and dependents, making it the largest employer in the County.

Brevard County covers 1,018 square miles with three metropolitan areas -- Palm Bay at the southern end, Melbourne in the middle, and Titusville at the northern end of the county. These three metropolitan areas are approximately 20-30 miles apart, making it close to 90 miles from the southern end of the county to the northern end of the county. Hospitals are located near these metropolitan areas in the southern, central, and northern ends of the county, and the health care networks operating in the county contract with hospitals and providers near one of these metropolitan areas not all three areas and seldom even in two of the three areas. As public employers with employees spread across the County, it was necessary to offer health insurance coverage County-wide. In 1999, both the County and School Board's "fully-insured" contracts with their insurance carriers limited the available networks to small geographic areas, which was unacceptable. As a

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result, it was necessary to release a Request for Proposal to expand health care coverage options.

In early June of 1999, a Request for Proposal was released seeking fully insured proposals and self-funded direct contract proposals. Only one of the responders chose to offer a fully insured program at almost double the existing costs, forcing the County to seriously consider the self-funded direct contract proposals. In a self-funded arrangement, the County and the School Board are required to assume the unknown risk for the cost of all the medical expenses, which could be considerable. To offset the risk of this the County needed to purchase "Stop-loss" insurance or umbrella insurance coverage for catastrophic illnesses with a maximum deductible of \$150,000 per claim.

Brevard County Commissioners made a commitment to County employees to keep health care costs as low as possible and to provide the employees freedom of choice in the selection of a physician and hospital setting. To achieve this goal the Human Resource Department aggressively negotiated on behalf of the County to be able to offer the employees four options. There are two health maintenance organization (HMO) plans that cover either end of this large County, and a preferred provider organization (PPO) with a wide selection of physicians and hospitals. The fourth option is an exclusive provider option (EPO) specifically designed, negotiated and managed by the County to allow a greater selection of hospitals and doctors than either of the HMO options covering the three metropolitan areas.

The Brevard Partnership EPO/PP0 plans are accomplished through direct contracting, and offer a unique partnership between the County, the School Board, local physicians, and ancillary providers as well as all local hospitals. The decision to offer the Brevard Partnership plans required a tremendous effort on the part of the human resource benefits staff to negotiate with individual physicians, physician groups, hospitals, and other health care service providers to create the plans. A major area of concern for local physicians and hospitals was that the County would not be able to fund the project. Brevard County Commissioners had to make a substantial commitment regarding the funding of this self insured program. The State of Florida Department of Insurance requires the County maintain in reserve 20-25 percent of estimated expenditures, which is approximately \$4 million in reserve to ensure the financial soundness of the program. This state requirement resulted in a 20 percent increase in the 1999/2000 County budget, which is a necessary and significant step in creating a self-insured program.

Advantages of Self-Insurance

The most important advantage of self-insurance for Brevard County is the ability to offer County employees a comprehensive health care benefit package. In the five years before the move to self-insurance, each of the Insurance Carriers utilized by the County Commissioners reduced the number of available network doctors and hospitals and increased premium costs. In 1999, a crisis emerged in the Brevard health care market

Attachment #1

when in response to the Request for Proposals for Insurance Carriers only one of the responders chose to offer a fully insured program at twice the current cost. The other responders offered to manage the program and make available their negotiated rates with doctors, laboratories, etc. with the County assuming the risk for the cost of all the medical expenses. Based on the response of the medical community, Brevard County Commissioners felt there was little choice but to become self-insured.

Choice of health care providers by Brevard County employees is another important advantage of self-insurance. With the creation of the EPO, the County was able to provide a broad range of options in physician choice and hospital choice to offset the difficulty with the HMO coverage. Each of the HMO providers offered coverage at a different hospital at a different location in the County, creating a type geographical discrimination.

A third advantage is that the County creates and negotiates the EPO placing the control for the program with the Human Resource Department. In this way the needs of the County and the employees will be better served as the benefit managers become case managers with direct control over service allocation.

Disadvantages of Self-Insurance

The most significant disadvantage is that of cost and of potential loss. In Florida, an organization deciding on self-insurance for health care coverage must adequately fund the program. For Brevard this was a 20 percent increase in the budget during the first year, with an annual reserve of \$4 million or 20 to 25 percent of the claims from the previous year to demonstrate financial soundness. Properly funding the program and managing the cash flow are the most challenging aspects of a self-insurance program. The reason for this is that the self-insurer pays the claims, and the resources must be available for the program to remain solvent. Also, the County had to purchase "stop-loss" insurance to cover claims that exceeded \$150,000 to insure financial soundness. In the two years that the program has been in existence there have been five (5) claims over this amount in 2000 and one (1) claim in 2001 to date, resulting in a 42% rate increase in the "stop-loss" insurance premiums.

Another disadvantage is that the Human Resource Department must become very involved in the administration of the program. Significant amounts of time and energy are required to make this type of program work. The Human Resource Benefit staff remained at 3 FTE's with a Benefits Manager and two Employee Benefits Specialists until June of this year, when an Insurance Director position was added. This new position assists with the administrative oversight functions of the program. Again, this translates into a cost that the organization did not previously have.

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Conclusion

Brevard County, Florida has chosen to become self-insured to provide employee health insurance coverage, and we have shared several of the lessons that could help other organizations considering this option. First, self-insurance for health care coverage is an option to organizations that can deal in economies of scale. A large employee base of at least 1000 employees is preferred before considering self-insurance.

Second, a healthy budget that will allow for a reserve fund of 20-25 percent of potential claims to ensure financial soundness is necessary for the program to work and to meet Department of Insurance requirements. Third, the real advantage to self-insurance in health care coverage is that the organization is able to provide its employees with cost-effective coverage with a high degree of provider choice. Brevard offers County employees four options with two HMO plans, their own EPO plan, and a PPO plan that vary according to cost and choice of providers.

In an increasingly difficult health care market, employers either public or private will be facing the option of self-insurance. For many it will not really be a choice, but a necessity if they are to continue to offer their employees health care coverage that is affordable and with a choice of plans, which was the case in Brevard. As a health care crisis looms on the horizon, self-insurance is one option to deal with the problem. For small public organizations the choices are limited, and a new form of managed competition may emerge as these small organizations partner to provide their employees with health care insurance coverage.

Source: "*Periscope*," Summer/Fall 2001, the journal of the American Society for Public Administration's (ASPA) Section on Personnel Administration and Labor Relations.
Available: [http://www.spalr.org/New/back%20issues/Issue%2022-2/Issue%20-%2022-2%20\(self-insurance\).htm](http://www.spalr.org/New/back%20issues/Issue%2022-2/Issue%20-%2022-2%20(self-insurance).htm)

LEGISLATIVE ANALYSIS AND ECONOMIC IMPACT STATEMENT

SUNSET REVIEW OF COUNTY BOARDS FOR 2005-INDEPENDENT REVIEW PANEL Independent Review Panel

SUMMARY

This is the Independent Review Panel's (IRP) recommendation for its continuation. The County Manager recommends continuation of the IRP.

PRESENT SITUATION

- Quorum achieved at scheduled monthly meetings:
2003—10 of 12 meetings (83.3%)
2004—12 of 12 meetings (100%)
- Vacancies: None reported in this Item.

POLICY CHANGE AND IMPLICATION

Neither the IRP nor the County Manager recommended any changes to the IRP's enabling legislation, Article I.C to Chapter 2 of the Code.

ECONOMIC IMPACT

Direct costs: (Countywide general funds)
\$463,000 FY 2003-04
\$520,000 FY 2004-05 (+12.3% increase over FY 2003-04)

Indirect costs: Unspecified.

COMMENTS AND QUESTIONS

The IRP indicates it has "process" performance measures (paragraph 8, handwritten p. 9) and argues against use of quantitative measurements.

- The listed "measures" would be more appropriately described as the IRP's performance objectives and performance standards than as "measures."
- Inclusion of appropriate measures could assist the BCC and the IRP to focus on progress toward and accomplishment of the purposes specified in the IRP's enabling legislation.
- Examples of potentially appropriate performance measures might include:
 - Percent of matters reviewed and on which a final report has been published and distributed per Sec. 2-11.48 of the Code;
 - Number of referrals of suspected criminal or disciplinary matters to appropriate government authorities per Sec. 2-11.48 of the Code;
 - Percent of community disputes that came before the IRP and were resolved to the satisfaction of all principal parties in the dispute;

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- Community satisfaction as determined by scientifically designed and conducted surveys, including appropriate qualitative and quantitative components measuring the IRP's accomplishment of its mission, achievement of its performance objectives, and compliance with its performance standards.